Public Document Pack

Pension Fund Committee

Date: Tuesday, 5 March 2024
Time: 1.30 pm
Venue: Committee Room 1, County Hall, Dorchester, DT1 1XJ

Membership: (Quorum 4)
Andy Canning (Chairman), John Beesley, David Brown, Simon Christopher, Adrian Felgate, Howard Legg, Felicity Rice, Mark Roberts and Gary Suttle

Chief Executive: Matt Prosser, County Hall, Dorchester, Dorset, DT1 1XJ

For more information about this agenda please contact Democratic Services
Meeting Contact joshua.kennedy@dorsetcouncil.gov.uk

Members of the public are welcome to attend this meeting, apart from any items listed in the exempt part of this agenda.

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Agenda

Page No

1. APOLOGIES

To receive any apologies for absence.

2. MINUTES 5 - 10

To confirm the minutes of the meeting held on 29 November 2023.

3. DECLARATIONS OF INTEREST

To disclose any pecuniary, other registrable or personal interest as set out in the adopted Code of Conduct. In making their decision councillors are asked to state the agenda item, the nature of the interest and any action they propose to take as part of their declaration.

If required, further advice should be sought from the Monitoring Officer in advance of the meeting.

4. PUBLIC PARTICIPATION

Representatives of town or parish councils and members of the public who live, work, or represent an organisation within the Dorset Council area are welcome to submit either 1 question or 1 statement for each meeting. You are welcome to attend the meeting in person or via MS Teams to read out your question and to receive the response. If you submit a statement for the committee this will be circulated to all members of the committee in advance of the meeting as a supplement to the agenda and appended to the minutes for the formal record but will not be read out at the meeting. The **first 8 questions and the first 8 statements received from members of the public or organisations for each meeting will be accepted on a first come first served basis in accordance with the deadline set out below.** Further information read [Public Participation - Dorset Council]

All submissions must be emailed in full to Joshua.kennedy@dorsetcouncil.gov.uk by 08:00am Thursday 29 February 2024.

When submitting your question(s) and/or statement(s) please note that:

- You can submit 1 question or 1 statement.
- A question may include a short pre-amble to set the context.
- It must be a single question and any sub-divided questions will not be permitted.
- Each question will consist of no more than 450 words, and you will be given up to 3 minutes to present your question.
- When submitting a question please indicate who the question is for (e.g., the name of the committee or Portfolio Holder).
- Include your name, address, and contact details. Only your name will be published but we may need your other details to contact you about your question or statement in advance of the meeting.
- Questions and statements received in line with the council's rules for public participation will be published as a supplement to the agenda.
- All questions, statements and responses will be published in full within the minutes of the meeting.

5. QUESTIONS FROM COUNCILLORS

To receive questions submitted by councillors.

Councillors can submit up to two valid questions at each meeting and sub divided questions count towards this total. Questions and statements received will be published as a supplement to the agenda and all questions, statements and responses will be published in full within the minutes of the meeting.

The submissions must be emailed in full to Joshua.kennedy@dorsetcouncil.gov.uk by 08:00am Thursday 29 February 2024.

Dorset Council Constitution – Procedure Rule 13

6. URGENT ITEMS

To consider any items of business which the Chairman has had prior notification and considers to be urgent pursuant to section 100B (4) b) of the Local Government Act 1972. The reason for the urgency shall be recorded in the minutes.

7. PENSION FUND EXTERNAL AUDITOR'S REPORT 2020/21 11 - 60

To consider the external auditor's report for 2020/21.

8. DATES OF FUTURE MEETINGS

To confirm the dates for the meetings of the Committee in 2024/25:

26 March 2024
25 June 2024
17 September 2024
26 November 2024
18 March 2025

9. EXEMPT BUSINESS

To move the exclusion of the press and the public for the following item in view of the likely disclosure of exempt information within the meaning of paragraph 3 of schedule 12 A to the Local Government Act 1972 (as amended).

The public and the press will be asked to leave the meeting whilst the item of business is considered.

10. Listed Equities Review 61 - 78

Para 3
To consider the results of the listed equities review.

11. Investment Management Arrangements 79 - 94

Para 3
To consider any potential changes to investment management arrangements.

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Dorset Council

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON WEDNESDAY 29 NOVEMBER 2023

Present: Cllrs Andy Canning (Chairman), Simon Christopher, Howard Legg, Mark Roberts and Adrian Felgate (Scheme Member Representative)

Present remotely: Cllrs John Beesley (BCP), David Brown (BCP) and Felicity Rice (BCP)

Apologies: Cllrs Gary Suttle

Also present: Chris Crozier and Simon Wood (Brunel Pension Partnership and Steve Tyson (Independent Investment Advisor, Apex Group)

Officers present (for all or part of the meeting):
Sean Cremer (Corporate Director for Finance and Commercial), Aidan Dunn (Executive Director - Corporate Development S151) and David Wilkes (Service Manager for Treasury and Investments)

236. **Minutes**

The minutes of the meeting held on 19 September 2023 were confirmed and signed.

237. **Declarations of Interest**

No declarations of disclosable pecuniary interests were made at the meeting.

238. **Public Participation**

No questions or statements from members of the public were made at the meeting.

239. **Questions From Councillors**

No questions or statements from Councillors were made at the meeting.

240. **Urgent items**

No urgent items were raised at the meeting.

241. **Brunel Pension Partnership Quarterly Report**

The Committee considered the quarterly report of Brunel Pension Partnership (Brunel), the pension fund’s Local Government Pension Scheme (LGPS) investment pooling manager.

Inflation was coming down but not as quickly as markets had previously expected so, whilst interest rates may have peaked, they were not expected to fall any time soon which had a negative impact on growth and quality stocks. The oil price had increased by about 20% over the quarter which meant that energy was the best performing sector. All Brunel portfolios were underweight this sector because of climate change policies.

Performance in listed markets was driven by a few very large stocks, Alphabet, Apple, Meta, Microsoft, Nvidia and Tesla, with these companies responsible for 85% of global stock market returns this year to date. A key determinant of the performance of each of Brunel’s listed markets portfolios had therefore become how much the portfolio was over or underweight the benchmark index in these companies. This trend also meant that passive funds that track ‘market capitalisation’ indices had become very exposed to concentration risk.

It was acknowledged that Brunel had faced a particularly challenging series of headwinds but there were always headwinds for investment managers to navigate. The Committee were looking for an improvement in performance over the next couple of years and if that improvement did not materialise other options would need to be considered.

Brunel were confident in the ability of their underlying investment managers who were largely invested in high quality companies with good earnings potential and strong balance sheets. These investments were undervalued due to market sentiment not because of the underlying fundamentals of the businesses. More neutral market conditions should be more conducive to outperformance by its managers.

Specific concerns regarding China were also discussed. Although valuations in China had become more attractive, especially compared to other major emerging markets such as India there were concerns about the relations between China and the USA, and Taiwan.

242. **Brunel Governance / Scheme Advisory Board Update**

Cllr John Beesley, the pension fund’s representative on the Brunel Oversight Board (BOB), and also a member of the LGPS Scheme Advisory Board (SAB), updated the Committee on governance matters relating to investment pooling.

A key area of focus for both bodies was the government’s consultation on the future of LGPS investments. The outcome to the consultation was published on the date of the Chancellor of the Exchequer’s Autumn Statement, 22 November 2023. The potential impacts for the pension fund would be discussed in more detail at future meetings of the Committee.

The key element of the government’s proposals was an ambition to increase the size and reduce the number of LGPS investment pools. This was suspected to be driven by government concerns that its ambitions for ‘levelling up’ and private equity investment would not be met from the existing pooling arrangements. Such a consolidation would be hugely disruptive and costly, and it was unclear if this would be the right course of action.

Other key points from the consultation were that the government wanted all listed assets under pool management by March 2025, and that all LGPS funds should have ambitions to invest 5% of their assets in ‘levelling up’ investments and 10% in private equity investments. Greater collaboration between pools was encouraged but competition between pools was discouraged. Objective setting for advisors and training for pension fund committee members would become more formalised.

Brunel’s quarterly reporting had improved but Committee members should let Cllr Beesley know if they wished to see further modifications. It was agreed that training to better understand the Brunel reporting would also be beneficial. More generally officers would be reviewing the structure and volume of reports received by the Committee to better highlight key matters.

Social and affordable housing as an asset class available for investment through Brunel would need to be discussed within the partnership. Currently access to this asset class was only available outside the pool which was inconsistent with the government’s ambitions for investment pooling.

243. **Independent Investment Adviser's Report**

The Committee considered a report from Steve Tyson, Apex Group, the pension fund’s Independent Investment Adviser, that gave views on the economic and market background to the pension fund’s investments, the outlook for different asset classes and key market risks.

It had been a negative quarter for most stock markets except the UK. Inflation had begun to fall and interest rates had stabilised, but it wasn’t clear when they might fall and how quickly. Recession might be avoided but there could be a period of ‘stop-start’ economic activity similar to that experienced in the 1990s.

Private markets had seen falls in valuations that lagged what had happened previously in public markets. Also, many corporate pension schemes were now looking to sell their private market investments as they were now close to their ‘buy out’ funding position.

The benchmarks for Brunel’s portfolios were agreed with clients at the inception of each portfolio and reviewed at least every three years. The pension fund’s combined benchmark is the average of all individual benchmarks weighted by the strategic asset allocation. The pension fund’s combined investment returns should also aim to match or exceed the discount rate used by the actuary to assess the funding position.

The next stage of the equity ‘deep dive’ would need to look in more detail at Emerging Markets, including a better understanding of the pension fund’s exposure to China.

244. **Pension Fund Administrator's Report**

The Committee considered a report from officers on the pension fund's funding position, asset valuation, investment performance and asset allocation as at 30 September 2023.

The value of the pension fund's assets at 30 September 2023 was £3.5 billion which was broadly unchanged from the start of the financial year. Just over three quarters of assets by value were now under the management of Brunel.

Contributions to the pension fund from scheme members and their employers were currently broadly equal to the benefits paid out each month. As the pension fund matures, cashflow will become a more important factor when setting and implementing the investment strategy.

The pension fund's Investment Strategy Statement (ISS) had been updated to reflect the changes to strategic asset allocations agreed at the June 2023 meeting. It was discussed whether the ISS should include an explicit Net Zero emissions target of 2050 to align with Brunel's climate change policy and Dorset Council and BCP Council's targets for their respective local areas. Committee members were generally supportive of this but wanted to avoid unintended consequences for future investment performance and therefore for scheme employers. A better understanding of how progress against a target could be measured was also needed.

Decision

That:

- The revised Investment Strategy Statement (ISS) be published on the pension fund's website.
- A statement on the pension fund's position regarding a Net Zero emissions target be drafted for further consideration by the Committee.

245. **Pension Fund Annual Report 2022-23**

LGPS regulations require all administering authorities to publish an annual report on the activities of its pension fund. The report of the independent auditor regarding the financial statements for 2022/23 had not been received but it would be circulated to members of the Committee when received. The final audit reports and opinions for 2020/21 and 2021/22 were still outstanding also.

Decision

That the annual report is published on the pension fund's website in draft unaudited format.

246. **Pension Administration Report**

Performance against Key Performance Indicators (KPIs) continued to be generally good, especially given the very high volume of work and significant changes that are going on particularly around the McCloud remedy and system updates.

Recruitment and retention had stabilised, and the administration team were in a good position to deal with the additional work associated with the McCloud remedy. The software solution for the calculations needed for the McCloud remedy was not yet available but was expected late 2023 / early 2024.

All active members plus pensioner and deferred members who are in scope for the McCloud remedy will receive written notice before 31 December 2023. This would make clear that scheme members will not need to take any action themselves. Approximately 21,000 scheme members could be in scope for an adjustment to their benefits, but the value of any such adjustments would be relatively very low.

The Pensions Regulator has also recognised the challenges faced by pension schemes to reflect the adjustments for the McCloud remedy in scheme members' Annual Benefit Illustrations.

It is expected that pensions will be uprated in April 2024 by the Consumer Prices Index (CPI) rate of inflation for September 2023 of 6.7% but this is still subject to government confirmation.

The Pension Administration service is a finalist for team of the year in Dorset Council's annual employee awards.

247. **Dates of Future Meetings**

1.30pm Tuesday 5 March 2024 - County Hall, Dorchester.
10am Tuesday 26 March 2024 - Teams (to be confirmed)

248. **Exempt Business**

Decision

That the press and the public be excluded for the following item(s) in view of the likely disclosure of exempt information within the meaning of paragraph 3 of schedule 12 A to the Local Government Act 1972 (as amended).

249. **Investment Management Changes**

The Committee considered a proposal to make some changes to existing investment management arrangements.

Decision

That the recommended changes to investment management arrangements be implemented.

Duration of meeting: 10.00 am - 12.45 pm

Chairman

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Pension Fund Committee
Tuesday, 5 March 2024
Pension Fund External Auditor's Report 2020/21

For Decision

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: David Wilkes
Title: Service Manager (Treasury and Investments)
Tel: 01305 224119
Email: david.wilkes@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary

The final report of the independent auditor on the pension fund accounts for 2020/21 is attached as Appendix 1 to this report. The report will be presented to the Committee by Ian Howse, Audit Partner, Deloitte.

The auditor has also issued their opinion that the pension fund financial statements for 2020/21 give a true and fair view of the transactions, assets and liabilities of the pension fund for the period and year end date and have been properly prepared in accordance with the relevant accounting code of practice (Appendix 2).

The auditor has also concluded that pension fund’s financial statements for 2020/21 are consistent with the pension fund’s annual report for 2020/21 (Appendix 3).

The pension fund's financial statements (Appendix 4) are included as an appendix to the full accounts of Dorset Council for the year ending 31 March 2021 that will be published on the Council's website.

Recommendation:

That the Committee:

i. review and comment on the final report of the independent auditor for 2020/21;
ii. note the independent auditor’s opinion that the pension fund financial statements for 2020/21 give a true and fair view of the transactions, assets and liabilities of the pension fund for the period and year end date and have been properly prepared in accordance with the relevant accounting code of practice; and
iii. note the independent auditor’s opinion that the pension fund’s financial statements in the pension fund annual report for 2020/21 are consistent with the full annual statement of accounts of Dorset Council for the year ended 31 March 2021.

Reason for Recommendation:

The final report and audit opinions of the independent auditor have not been received in relation to the pension fund financial statements and annul report for the year ended 31 March 2021.

1. Financial Implications

The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally. Dorset Council is the administering authority for the LGPS in Dorset which provides pensions and other benefits for employees of the Council, other councils and a range of other organisations within the county.

Administering authorities are required to maintain a pension fund for the payment of benefits to scheme members funded by contributions from scheme members and their employers, and from returns on contributions invested prior to benefits becoming payable. Administering authorities are required to produce annual financial statements for their pension fund, and those financial statements must be subject to external review by independent auditors.

2. Natural Environment, Climate and Ecology Implications

None.

3. Well-being and Health Implications

None.

4. Other Implications

None.

5. Risk Assessment

The report of the independent auditor identifies and responds to the significant audit risks faced by the pension fund.

6. Equalities Impact Assessment

There are no equalities implications arising from this report.

7. Appendices

Appendix 1: Independent Auditor’s Report 2020/21
Appendix 2: Pension Fund financial statements 2020/21 auditor's opinion
Appendix 3: Pension Fund annual report 2020/21 consistency opinion
Appendix 4: Pension Fund final audited annual financial statements 2020/21

8. Background Papers

Pension Fund Annual Report 2020-21

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Deloitte.

Dorset Council

Dorset County Pension Fund

Final report to the Pension Fund Committee on the 2021 audit

2 February 2024

Contents

Executive Summary

The key messages in this report:

I have pleasure in presenting our Final Report to the Pension Fund Committee for the 2021 audit of the Dorset County Pension Fund (the 'Fund'). The completion of the audit of the Pension Fund has been delayed until the Dorset Council financial statements for 2021 were ready to be signed. I would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority.

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A **robust** challenge of the key judgements taken in the preparation of the financial statements.

A strong **understanding** of your internal control environment.

A **well planned** and delivered audit that raises findings early with those charged with governance.

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Status of the audit

Our audit is substantially complete with the following outstanding items:

- Subsequent events review to the date of signing
- Receipt of signed letter of representation

Significant audit risk and audit focus areas

We identified the following risks:

- Significant audit risk: management override of controls.
- Significant audit risk and area of audit focus: directly held property testing has been a blended approach of significant risk and an area of audit focus. In our planning call with Deloitte Real Estate (DRE) we recognised that there were certain properties in the portfolio which have characteristics such as vacant units or restaurant and gym tenants in the leisure sector (where the sector would be considered to be under stress) which have been flagged by DRE at the planning stage for further work and have been classified as significant risks at the planning stage. The remaining properties are considered an area of audit focus tested via a substantive analytical review. Where properties fell outside of our calculated thresholds, they have been upgraded to a significant risk and referred to DRE for further testing.
- Area of audit focus: Completeness and valuation of investments.

Please refer to pages 5 to 7 for details of our audit conclusions. There are no corrected misstatements. Non-material uncorrected misstatements are noted on page 12. Non-material other disclosure recommendations are noted on pages 13 to 15. Audit insights as a result of our testing have been included in pages 16 to 19.

Materiality

Our materiality was £33.5m (2019/20: £27.1m) based on 1% of the net assets of the fund. The current year misstatements reporting threshold is £670k (2019/20: £540k) based on 2% of materiality.

Ian Howse
Audit Partner

Scoping

Risk dashboard

Risk Identified	Material Balance	Management Judgement /Complexity	Controls Approach	Fraud Risk	Summary conclusion
Significant Risk Management override of controls	✗	⚠	D&I	✓	Pg. 5
Significant Risk Valuation of directly held property investment (for certain properties identified at the planning stage or upgraded during the testing phase) **Other Focus Area** Valuation of directly held property investment (for all other properties)	✓	⚠	D&I	✗	Pg.6
Other Focus Area Completeness and valuation of investments with focus on Private equity investments	✓	⚠	D&I	✗	Pg. 7

Significant Risk	Low levels of management judgement/complexity	**D&I** Design and Implementation
Other area of audit focus	Medium levels of management judgement/complexity	**OE** Operating effectiveness
	High degree of management judgement/complexity	

Significant risk

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits.

The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Deloitte response to significant risk identified

In order to address the significant risk, we performed the following audit procedures:

- Used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items which are tested to supporting documentation;
- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Tested the design and implementation of controls around the journals process, and investment and disinvestment of cash during the year;
- Reviewed related party transactions and balances to identify if any inappropriate transactions have taken place;
- Reviewed the accounting estimates for bias, such as year-end debtor and creditor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management; and
- Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year.

Conclusion

No issues were noted as a result of our testing.

Valuation of directly held property investment

Significant risk (for certain properties identified at the planning stage or upgraded during the testing phase) and **Other Focus Area** (for all other properties)

Risk identified

The Fund holds direct property valued at £261m as at 31 March 2021. There is a high level of management judgement used when valuing the property. Directly held property testing has been treated as a significant risk and an areas of audit focus, utilising a blended approach. In our planning call with Deloitte Real Estate (DRE), our in-house property specialists, we recognised that there were certain properties in the portfolio which have characteristics such as vacant units or restaurant and gym tenants in the leisure sector (where the sector would be considered to be under stress) which have been flagged by DRE at the planning stage for further work and have been classified as significant risks at the planning stage. The remaining properties will be an area of audit focus tested via a substantive analytical review. Properties that fall outside of our calculated thresholds will be upgraded to significant risk to be referred to DRE for further testing.

Deloitte response to significant risk and other focus area identified

In order to address the risk, we performed the following audit procedures:

- Reviewed the design and implementation of key controls over the valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Assessed the reliability, competence and capabilities of CBRE as valuer;
- Agreed the year end valuations as reported in the financial statements to the reports received directly from the investment managers;
- Agreed a sample of properties to land registry documents and yearly rent to rental agreements;
- Prepared an expectation of the year end valuation for properties held by the Fund using comparable market indices and comparing the expectation to the valuation provided by CBRE; and

Additional procedure for significant risk properties only:

- Consulted with property specialists within Deloitte Real Estate (DRE) to review the valuation of the individual properties

Conclusion

10 out of 32 of the properties were identified as a significant risk and referred to DRE for further testing, all other properties were within expectation. No misstatements were noted as a result of our additional testing. However, our property specialists raised a number of insights which have been included on page 19.

Audit focus areas

Focus Area

Completeness and valuation of investments

Risk identified

The Fund holds a large and highly material portfolio of investments and due to the ongoing changes and numerous transactions within this portfolio, there is considered to be an increased risk of material misstatement.

Additionally, within this portfolio, there is a range of alternative investments including property, diversified growth funds and multi asset credit. These funds do not have publicly available prices and are often infrequently priced, increasing the risk of stale pricing.

Deloitte response to audit focus area identified

In order to address this audit focus area, we performed the following audit procedures:

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the custodian and investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Traced all holdings in the custodian report to independent confirmations received from the underlying investment managers;
- Performed a book cost reconciliation in which the opening investment balances are reconciled to the closing investment balances by taking into account the sales and purchases during the year using State Street reports. In addition, a sample of sales and purchases from the custodian report were agreed to independently received investment manager records;
- Performed a cash reconciliation;
- Agreed the valuation of registered funds and directly held securities to publicly available prices;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- Evaluated any stale price differences noted.

Conclusion

We have noted a number of investment misstatements. Non-material uncorrected misstatements are noted on page 12. Non-material other disclosure recommendations are noted on pages 13 to 15.

Other risks

Other audit considerations

Area of focus	Description	Audit response
Going Concern	As auditors, we are required to confirm in our audit report that the going concern basis of the financial statements is appropriate.	As part of our testing we: • Examined the latest publicly available information regarding the financial position of the administering body; • Analysed the latest funding position of the Fund; • Reviewed minutes of the Local Pension Board and Pension Fund Committee meetings. No issues were noted as part of our testing.
Fraud	Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.	As part of our testing we: • Performed procedures to assess the risk of management override as detailed on page 5; • Reviewed the controls in place surrounding fraud risks including disinvestments; and • Agreed 100% of investments to third party investment confirmations. No issues were noted as part of our testing.
GMP Equalisation	The High Court judgement on 26 October 2018 confirmed that UK pension schemes should provide equal benefits for men and women for service from May 1990 despite inequalities in GMP legislation. The judgement also confirmed permitted methods.	As part of our testing we: • confirmed with the Fund Actuary any changes in the assessment of the impact of GMP Equalisation and GMP Equalisation on transfers on the Fund; and • confirmed that no disclosures are required to be made in the financial statements due to the limited impact. No issues were noted as part of our testing.
McCloud and Sargent judgements	In December 2018, the Court of Appeal found that transitional protections in the pension schemes for firefighters (‘McCloud’) and the judiciary (‘Sargeant’) resulted in unlawful age discrimination.	As part of our testing we: • confirmed with the Fund Actuary any changes in the assessment of the impact of the McCloud and Sargent judgements on the Fund; and • Confirmed that appropriate disclosures have been made in the financial statements. No issues were noted as part of our testing.

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Other risks

Other audit considerations

Area of focus	Description	Audit response
Russia Ukraine war	Subsequent to the year end, Russia has invaded Ukraine	As part of our testing we: • Confirmed that the pension fund had a relatively small indirect exposure to Russia through investments in the Emerging Markets Fund managed by Brunel. This equated before the invasion to about 3% of the value of that investment. Brunel instructed their underlying managers to divest from their Russian positions once the invasion had started and the remaining underlying holdings in Russia now have a zero value. This is a non adjusting subsequent event.
September 2022 gilt crisis	Subsequent to the year end, the market turmoil after the September 2022 mini-budget, liability-driven investment (LDI) funds risked being unable to meet cash collateral demands on the complex derivatives and repurchase agreement they had used to hedge against movements in interest rates	As part of our testing we: • Confirmed that the collateral calls in the Fund's segregated insight LDI portfolio were made from the liquidity holdings in the portfolio without selling additional assets. In November 2022, a decision has been made to disinvest the mandate. • This is a non adjusting subsequent event, however due to its importance to the users of the financial statements we had recommended that disclosure is made in the financial statements. As noted on page 16, we conclude that this missing disclosure is not material.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Pension Fund Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

This report has been prepared for the Pension Fund Committee , as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Pension Fund Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Ian Howse

For and on behalf of Deloitte LLP

2 February 2024

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report.

		Debit/ (credit) fund account £m	Debit/ (credit) in net assets £m	Debit/ (credit) Prior year net assets £m
Misstatements identified in current year				
Stale pricing				
DR Investment assets – pooled investment vehicles	[1]		24.633	
CR Change in market value		(24.633)		
Misstatements identified in prior years				
Stale pricing				
DR Opening net assets	[2]			5.154
CR Change in market value		(5.154)		
Disclosure misstatements				
Cash in transit reclassification				
CR Investment assets – pooled investment vehicles	[3]		(20.000)	
DR Investment assets – cash in transit			20.000	
Sales and purchases adjustment				
CR Investment purchases	[4]		(0.672)	
DR Investment sales			0.672	
Total		**(29.787)**	**24.633**	**5.154**

[1] Stale price adjustments noted in the current year

[2] Stale price adjustments noted in the prior year (as disclosed in the prior year misstatement schedule)

[3] Reclassify £20m cash in transit at the year end which had been recognised in pooled investment funds

[4] Adjustment to investment sales and purchases compared to State Street reports

Audit adjustments

Disclosure

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

LGPS Ref	Code reference	Disclosure requirement	Quantitative or qualitative consideration
PFA 48	6.5.3.6 b)	*Net assets statement* b) Investment liabilities: – Derivative contracts (including futures, options, forward foreign exchange contracts and swaps) *On the net assets statement, derivatives have been netted and shown as a net liability under the Investment assets heading rather than split between Investment assets and investment liability headings*	*Derivate assets are £510k and liabilities are £1,180k. The amounts are not material.*
PFA 7	3.8.4.3, 6.5.5.1 t)	*Note 6 Events after the reporting date should refer to the impact of the September 2022 gilt crisis.*	*By Dec 22, the investment value is £3,416,769k which is a 2.3% increase since 31 March 2021. As there has not been a significant decrease in the asset value, the users of the accounts would not be mislead by this missing disclosure*
PFA 44	3.4.4.1 7)	*Note 11* – fees payable to appointed auditors for audit services – fees payable to the appointed auditor for any other services provided	*Audit fees are £23k. The amounts are not material.*

Audit adjustments

Disclosure (continued)

Other disclosure recommendations (continued)

LGPS Ref	Code reference	Disclosure requirement	Quantitative or qualitative consideration
PFA 42	6.5.2.6, 6.5.3.6 a) 4.4.4.2 2)	*Note 12 Investment income:* - *has a sub heading for equities, this should make it clear that it is income from pooled investment vehicle equities as the Fund does not directly invest in equities.* - *Has a sub heading for direct property, this would be better described as rent from properties*	*The investment income amount from equities is £2,938k and direct properties is £12,125k which are not material.*
PFA 60	4.4.4.2 4.4.4.4	Where the information is material, has the pension fund disclosed the following notes in relation to investment property: a) The amounts recognised in the fund account for – Direct operating expenses (including repairs and maintenance) arising from investment property d) A reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following: – Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset – Net gains or losses from fair value adjustments – Other changes	*a) The property expense amounts are not material.* *d) Property purchases of £1,420k and sales of £6,427k are shown in Note 15 are not material.*

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Audit adjustments

Disclosure (continued)

Other disclosure recommendations (continued)

LGPS Ref	Code reference	Disclosure requirement	Quantitative or qualitative consideration
PFA 67	2.10.4.1	Where the information is material, has the pension fund made the following disclosures for all assets and liabilities measured at fair value in the Code: 1) Information that helps users of its financial statements assess both of the following: a) For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the net assets statement after initial recognition, the valuation techniques and inputs used to develop those measurements *The basis of valuation has not been given for the following categories:* - *Level 1 other investments* - *Level 2 cash and cash equivalents* - *Level 3 shares in asset pool*	*Level 1 other investments are £1,418k which are not material.* *Level 2 cash & cash equivalents are £4,635k and derivatives are £(670)k which are not material.* *Level 3 shares in Brunel asset pool of £768k which are not material.*
PFA 45	6.5.5.1 u)	*Note 21* b) In respect of additional voluntary contributions: – The value at the year-end date of separately invested additional voluntary contributions	*The invested AVC amount is unknown. Based on the range of market value of AVCs as a proportion of net investments of 0.06% to 0.45% for the other LGPS audited by Deloitte which provide this disclosure, the amount is not expected to be material.*

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Audit insights

IT specialist findings

Note: The IT findings below are on the Altair system which has subsequently been replaced

Observation	Year first communicated and severity	Deloitte recommendation
ALTAIR		
Application user access management controls There is no formal guidance in place to inform the Pension Systems team on the correct level of privileges to assign when new account created or account needs to be modified for users moving roles within the business. Furthermore, the leaver process does not include notification from HR to the Pension systems team for timely removal of the account. Instead the process is reliant on managers notifying the Pension systems team when access needs to be removed. This increases the risk of accounts retaining inappropriate access after the termination date of the user.	2020 Medium	We recommend that access to the application is granted in line with formally documented requirements. The level of access required by each job role should be determined and documented, so any administrator granting access knows the privileges to assign. Any modification to the access of users moving roles should be formally communicated and approved, with redundant access removed before new access is granted. We recommend that a formal process is documented for removing the access of leavers on Altair. This process should involve communication from HR to the Pension Systems team to notify of leavers from the business. Access should be disabled or removed in a timely manner upon receiving the HR notification.
Application user access management controls continued The current process for reviewing user access to Altair only takes into consideration the employment status of the user and not the specific levels of access the user has on the system. Although the user base of the application is relatively small, it is important to periodically review access rights to ensure these remain appropriate for a user's job roles and responsibilities. Where weaknesses in user access management controls exist, there is an increased risk that users are granted or retain levels of access inappropriate for their job role and accounts belonging to leavers remain active and open to misuse.	2020 Medium	We recommend that as part of the user review process currently in place, formal documentation should be maintained and signed off by appropriate business heads, confirming that the current access in the systems does not allow users to perform conflicting actions via Altair. Furthermore, the following aspects should be taken into consideration while performing access reviews: • Access rights are provided based on Principle of Least Privilege basis. This will limit access rights for users to the bare minimum permissions they need to perform their work. • If access management is performed outside the IT department, ensure adequate segregation of duties and monitoring controls are in place; • Review roles and functions to ensure there is no conflicting access built-in with them.

Audit insights

IT specialist findings (continued)

Observation	Year first communicated and severity	Deloitte recommendation
ALTAIR		
Application privileged access control Privileged access to the Altair application has been granted to a Pension Service Manager in the business. Business employees with admin accounts in the system create potential segregation of duties conflict and allows the user to bypass all manual controls. Furthermore this is not in line with the council policy, which states that this level of access should be restricted to the Pension Systems team.	2020 High	We recommend that financial systems administration including access management, access to key systems configurations and change management, are managed by only an IT support team. Where privileged accounts are needed to be used by members of business teams the following steps should be followed: - A specific account should be used by the team and this should be used only on a need to do basis; - IT team should have ownership of all privileged accounts and should be unlocked to complete a specific task if to be shared with the team; - Adequate logs should be maintained and reviewed by an independent team to ensure the account was only used for specific purpose; and - Privileged accounts should be locked and stored in a password vault where only IT will have access.
Database authentication control Password settings enforced for end users in the database layer is determined through the profile assigned to the account. Database accounts assigned DEFAULT profile on the Oracle database resulted in lack of password verify functionality, meaning checks on password complexity and minimum length are not required. There is also no expiry or password history enforced. Weak authentication settings can increase the risk of accounts being susceptible to password compromising attacks.	2019 Medium	We recommend that a password verify function is added to the database, to enforce minimum length and complexity checks on all passwords. Where this is not possible, passwords should be suitably complex and restricted to relevant members of IT via password vaults or other secure methods. All database passwords should be changed on at least an annual basis.

Audit insights

IT specialist findings (continued)

Observation	Year first communicated and severity	Deloitte recommendation
ALTAIR		
Aquila Heywood - no service auditor report available Support for the Altair platform is granted by third party Aquila Heywood. No service auditor report is currently noted to be available	2021 Medium	We recommend that Aquila Heywood provide a service auditor report.
Database privileged access control Four accounts, ALTLIVE, ALTLIVE_IMG, SERVICEUSER and READONLY, have privileged access to the Oracle database and do not have the password appropriately secured via a password vault or encrypted file. Furthermore, the account READONLY is designed to be a read only account used for reporting, but holds database administrator privileges giving it a high level of privilege across the database. Where access to privileged database accounts is not restricted, there is a risk that inappropriate access can be obtained, providing the ability to directly modify the underlying data.	2020 Medium	We recommend that privileged access to the database is restricted only to users in IT who require this as part of their day to day job role. Passwords to privileged database accounts should be suitably complex and restricted to relevant members of IT via password vaults or other secure methods. The accounts on the database should be periodically reviewed on a bi-annual basis to ensure the access rights they hold are still appropriate for their current role.
Business continuity and IT disaster recover At the time of our audit, Business Continuity and Service Continuity plans were being updated, there are no up to date and tested plans at this time. The Cyber Security and ICT Continuity Management Group exists however it was not meeting at the time of our audit.	2021 Medium	Business Continuity and Service Continuity plans should be up to date and tested.

Audit insights

DRE property specialist findings

Observation

BNP valuer
BNP confirm that they have been appointed and acted as an External Valuer. The valuations have been undertaken under the overall supervision of Peter Sudell FRICS, RICS Registered Valuer. The valuation report states that Peter Sudell has been responsible for this instruction since March 2014. We would highlight that RICS guidance is for a rotation of valuer every seven years, which is within this timeframe, although for subsequent cycles we would expect to observe a change in signatory.

Norwich - Cathedral Retail Park
Our property specialists consider the valuation is at the very upper end but just within an appropriate range. The Day 1 rent adopted includes rental income from both Toys R Us and Peacocks, despite both tenants being in administration/ceased trading and the units being vacant and no rent is being received. We would therefore consider the recognition of this income (despite the weakened capitalisation rate applied to the Toys R Us income as highlighted by the valuer) as optimistic and not in alignment with market practice.

London - 83 Clerkenwell Road
The property is vacant and is being redeveloped. Our property specialists consider that BNP have adopted a simplistic approach to the valuation of the property with regard to the adopted cost inputs. At a high level they believe that the valuation sits within an appropriate but wider than usual tolerance.

Aberdeen – Pilgrim House, Old Ford Road
Our property specialists consider that BNP have valued the property on an appropriate basis as at the valuation date, but due to the strength of the All Risk yield the value is towards the upper end but within an appropriate tolerance.

Crawley - Woolborough Lane Industrial Estate, Manor Royal
Swindon - Euroway Industrial Estate
Our property specialists consider that BNP have valued the properties on an appropriate basis as at the valuation date and we believe that the valuation sits within, but towards the lower end of a reasonable range.

EPC ratings
Under English & Welsh legislation, buildings with an EPC rating of F or G have been prevented from being re-let, with existing leases brought under the legislation from 2023. CBRE has confirmed that there is currently one asset currently below an E rating, which is Upper Floors, Charlotte House, Newcastle Upon Tyne, however they have stated that this is due to site being planned for sale and redeveloped by a new owner.

Deloitte recommendation

We recommend the observations above are monitored in future years.

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DORSET COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS OF DORSET COUNTY PENSION FUND

Report on the audit of the financial statements

Opinion

In our opinion the Pension Fund financial statements of Dorset County Pension Fund (the 'Pension Fund'):

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We have audited the financial statements which comprise:

- the Fund Account;
- the Net Assets Statement; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of Dorset Council and the Pension Fund it administers in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

The going concern basis of accounting for the pension fund is adopted in consideration of the requirements set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements.

Other information

The other information comprises the information included in the Dorset Council's statement of accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Chief Financial Officer's responsibilities

As explained more fully in the Chief Financial Officer's responsibilities statement, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the pension fund will continue in operational existence for the foreseeable future.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud

We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which our procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

We considered the nature of the pension fund, and reviewed the pension fund's documentation of its policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the pension fund operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Public Services Pensions Act 2013 and Local Government Pension Scheme Regulations 2013.

- do not have a direct effect on the financial statements but compliance with which may be fundamental to the pension fund's ability to operate or to avoid a material penalty. These included relevant employment legislation.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and

- reading minutes of meetings of those charged with governance.

Use of our report

This report is made solely to the members of Dorset Council (‘the Authority’), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

I C Howse.

Ian Howse (Appointed auditor)
For and on behalf of Deloitte LLP
Cardiff
21 February 2024

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF DORSET COUNTY PENSION FUND ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the Pension Fund financial statements for the year ended 31 March 2021, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24.

Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement Responsibilities, the Chief Financial Officer is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you my opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the Pension Fund financial statements in the statement of accounts of Dorset Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We also read the other information contained in the Pension Fund annual report and consider the implications for my report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the summaries of key financial information and of investment performance included in the annual report.

We conducted my work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the full annual statement of accounts of Dorset Council for the year ended 31 March 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Use of our report

This report is made solely to the members of Dorset Council ('the Authority'), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

I C Howse.

Ian Howse (Appointed auditor)
For and on behalf of Deloitte LLP
Cardiff
21 February 2024

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FUND ACCOUNT

2019/20 £'000	2019/20 £'000		Note	2020/21 £'000	2020/21 £'000
		Dealings with members, employers and others directly involved in the Fund			
	136,769	**Contributions**	*7*		**134,548**
108,553		Employer contributions		105,446	
28,216		Member contributions		29,102	
	10,793	**Transfers in from other pension funds**	*8*		**8,612**
	147,562	**Total additions from dealing with members etc.**			**143,160**
	(127,919)	**Benefits**	*9*		**(131,431)**
(104,933)		Pensions		(110,372)	
(19,875)		Commutation and lump sum retirement benefits		(17,342)	
(3,111)		Lump sum death benefits		(3,717)	
	(35,202)	**Payments to and on account of leavers**	*10*		**(7,773)**
(347)		Refunds of contributions		(325)	
(34,855)		Transfers to other pension funds		(7,448)	
	(15,559)	**Net additions/(withdrawals) from dealings with members and others**			**3,956**
	(14,009)	**Management expenses**	*11*		**(13,085)**
	(29,568)	**Net additions/(withdrawals) including Fund management expenses**			**(9,129)**
	24,666	**Investment Income**	*12*		**17,419**
	(135)	**Taxes on income**			**(56)**
	(311,314)	**Profit/(loss) on disposal of investments and changes in the value of investments**			**629,155**
	(286,783)	**Net return on investments**			**646,518**
	(316,351)	**Net increase/(decrease) in assets available for benefits during the year**			**637,389**
	3,029,952	**Opening net assets of the fund 1 April**			**2,713,601**
	2,713,601	**Closing net assets of the fund 31 March**			**3,350,990**

NET ASSETS STATEMENT

02 February 1903				31 March 2021	
£'000	£'000		*Note*	£'000	£'000
	427	**Long term investments**	*13*		**768**
427		Brunel Pension Partnership Ltd		768	
	2,698,426	**Investment assets**	*14*		**3,339,773**
11,251		UK equities (quoted)		-	
160,536		Overseas equities (quoted)		52	
2,115,368		Pooled investment vehicles		2,894,459	
98,085		Private equity		96,102	
264,665		Property		260,716	
54,925		Cash & cash equivalents		87,696	
(9,757)		Derivative contracts	*16*	(670)	
3,353		Other investment assets		1,418	
	(2,316)	**Investment liabilities**			**-**
(2,316)		Other investment liabilities		-	
	2,696,537	**Total net investments**			**3,340,541**
	965	**Long term debtors**			**-**
965		Other long term debtors		-	
	22,803	**Current assets**			**16,030**
17,612		Contributions due from employers		8,766	
5,191		Other current assets		7,264	
	(6,704)	**Current liabilities**			**(5,581)**
(787)		Unpaid benefits		(550)	
(5,917)		Other current liabilities		(5,031)	
-		Deferred income		-	
	2,713,601	**Net assets available to fund benefits**			**3,350,990**

NOTE 1. DESCRIPTION OF THE FUND

The Dorset County Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Dorset Council ("the Council").

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the Council to provide pensions and other benefits for pensionable employees of the Council, other councils and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Dorset County Pension Fund Committee, which is a committee of the Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies**, which are automatically entitled to be members of the Fund.
- **Admitted bodies**, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

31 March 2020		31 March 2021
317	**Total Employers**	**320**
	Employees	
6,492	Administering Authority	6,316
17,660	Other Scheduled Bodies	17,068
396	Admitted Bodies	1,127
24,548	**Total Employees**	**24,511**
	Pensioners	
8,986	Administering Authority	9,268
12,967	Other Scheduled Bodies	13,295
1,377	Admitted Bodies	1,824
23,330	**Total Pensioners**	**24,387**
	Deferred Pensioners	
8,629	Administering Authority	8,935
14,541	Other Scheduled Bodies	14,355
1,220	Admitted Bodies	1,535
24,390	**Total Deferred Pensioners**	**24,825**
1,129	'Undecided' members	1,340
73,397	**Total Members**	**75,063**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 10.0% to 29.0% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

NOTE 2. BASIS OF PREPARATION

The statement of accounts summarise the Fund's transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the Fund because it does not hold any assets as a lease.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information by appending an actuarial report.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account:

Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

Investment income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Rental income is recognised on a straight-line basis over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accruals basis.

Net Assets Statement:

Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 17). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Freehold and leasehold properties

Properties are valued annually as at the year-end date by independent external valuers on a fair value basis and in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards. See Note 17 for more details.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable as at the year-end date plus accrued interest.

Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an actuarial report appended to the accounts.

Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 22.

Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise in circumstances where it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (see Note 24).

NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net asset statement at fair value.

NOTE 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Actuarial present value of promised retirement benefits (Note 20)

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on Fund assets. A firm of consulting actuaries, Barnett Waddingham, is engaged to provide the Fund with expert advice about the assumptions to be applied.

Private equity investments (Note 17)

Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (December 2018) and the Special Guidance issued March 2020 concerning the impact of Covid-19 on valuations. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Freehold, leasehold property and pooled property funds (Note 17)

Valuation techniques are used to determine the carrying values of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, otherwise the best available data is used.

NOTE 6. EVENTS AFTER THE REPORTING DATE

There are events, both favourable and unfavourable, that can occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are events that provide additional information about conditions that existed at the end of the reporting period (adjusting events), and events that occur after the reporting period (non-adjusting events). No events after the reporting date have been identified.

NOTE 7. CONTRIBUTIONS RECEIVABLE

By category:

2019/20 £'000	Employer contributions	2020/21 £'000
71,672	Contributions re future service costs	77,954
26,648	Contributions re past service costs (deficit recovery)	17,617
1,138	Voluntary additional contributions	4,020
9,095	Augmentation cost of early retirements	3,544
-	Exit payments from employers	2,333
-	Exit credits to employers	(22)
108,553	**Total employer contributions**	**105,446**
28,216	**Member contributions**	**29,102**
136,769	**Total contributions receivable**	**134,548**

By type of employer:

2019/20 £'000		2020/21 £'000
45,023	Administering authority	39,473
87,271	Other scheduled bodies	81,909
4,475	Admitted bodies	13,166
136,769	**Total contributions receivable**	**134,548**

NOTE 8. TRANSFERS IN FROM OTHER PENSION FUNDS

All transfers in from other pension funds were individual transfers, there were no group transfers to the Fund in 2020-21.

NOTE 9. BENEFITS PAYABLE

By type of employer:

2019/20 £'000		2020/21 £'000
44,791	Administering authority	44,394
75,227	Other scheduled bodies	76,131
7,901	Admitted bodies	10,906
127,919	**Total benefits payable**	**131,431**

NOTE 10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

All transfers out to other pension funds were individual transfers.

NOTE 11. MANAGEMENT EXPENSES

The table below shows a breakdown of the management expenses incurred during the year.

2019/20 £'000		2020/21 £'000
1,538	Administrative expenses	2,149
502	Oversight and governance costs	543
11,969	Investment management expenses	10,393
14,009	**Total management expenses**	**13,085**

Investment management expenses consisted of:

2019/20 £'000		2020/21 £'000
9,525	Investment management fees	8,027
429	Performance related fees	480
144	Custody fees	121
245	Transaction costs	505
677	Transition costs	873
949	Other fees and costs	387
11,969	**Total investment management expenses**	**10,393**

Transaction costs associated with pooled investment vehicles are taken into account in calculating the bid/offer spread of these investments and are therefore embedded within the purchase and sales costs and not separately identifiable. All other transaction costs have been charged to the fund account.

NOTE 12. INVESTMENT INCOME

2019/20 £'000		2020/21 £'000
6,926	Equities	2,938
396	Pooled Investments	386
1,176	Pooled Property Investments	283
12,025	Direct Property	12,125
2,640	Private Equity	1,344
565	Interest from Cash Deposits	117
55	Other Income	11
39	Stock Lending Commission Income	-
6	Class Action Income	-
838	Fee Rebate Income	215
24,666	**Total Investment Income**	**17,419**

NOTE 13. LONG TERM INVESTMENTS

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (Brunel) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds.

Each of the ten funds own an equal share of Brunel, with share capital invested by each fund at a cost of £840k. The value of each fund's shareholding based on Brunel's most recently audited accounts was £768k (£427k at 31 March 2020).

NOTE 14. INVESTMENT ASSETS

31 March 2020			31 March 2021	
Market Value		Description / Investment Manager	Market Value	
%	£'000		£'000	%
0.40%	**11,251**	**UK Equities - Quoted**	**-**	**0.00%**
	11,251	Wellington	-	
5.90%	**160,536**	**Overseas Equities - Quoted**	**52**	**0.00%**
	39	Investec	52	
	160,497	Wellington	-	
3.60%	**98,085**	**Private Equity**	**96,102**	**2.90%**
	55,016	HarbourVest	52,998	
	34,001	Aberdeen Standard	27,849	
	4,509	Capital Dynamics Global Secondary Fund V	5,656	
	2,851	Neuberger Berman Private Equity Impact Fund	6,050	
	420	Neuberger Berman SCIOP IV	1,524	
	1,288	Ardian LBO Fund	1,948	
	-	Summit Eur Growth EQ III SCSP LP	78	
9.80%	**264,665**	**Property (directly owned)**	**260,716**	**7.80%**
	264,665	CBRE Global Investors	260,716	
		Pooled Investment Vehicles:		
8.20%	**220,608**	**Bonds**	**192,357**	**5.80%**
	220,608	RLAM Corporate Bond Fund	192,357	
17.70%	**477,121**	**UK Equities - Quoted**	**348,550**	**10.40%**
	41,864	Schroder UK Smaller Companies Equity Fund	74,779	
	304,674	LGIM UK Equity Index (passive)	107,290	
	130,583	Brunel UK Equities	166,481	
22.50%	**606,013**	**Global Equities - Quoted**	**1,364,900**	**40.90%**
	241,856	LGIM Smart Beta Fund (passive)	275,104	
	168,225	LGIM World Developed Equities (passive)	183,350	
	112,158	Brunel Global High Alpha Equities	247,102	
	83,774	Brunel Emerging Markets Equities	169,360	
	-	Brunel Global Sustainable Equities	325,313	
	-	Brunel Smaller Companies Equities	164,670	
4.50%	**120,399**	**Multi Asset Credit (MAC)**	**170,469**	**5.10%**
	120,399	CQS Credit Multi Asset Fund	170,469	
1.30%	**36,350**	**Property Funds**	**52,533**	**1.60%**
	6,655	Lend Lease Retail Partnership	4,155	
	10,333	Standard Life UK Shopping Centre Trust	6,282	
	16,265	CBRE UK Long Income Property Fund	16,451	
	3,097	Aberdeen Standard Long Lease Property Fund	22,359	
	-	M&G Secured Income Property Fund	3,286	
5.70%	**152,783**	**Diversified Returns Funds**	**164,281**	**4.90%**
	152,783	Barings Dynamic Asset Allocation Fund	-	
	-	Brunel Diversifying Returns Fund	164,281	

31 March 2020			31 March 2021	
Market Value		Description	Market Value	
%	£'000		£'000	%
7.20%	**195,271**	**Infrastructure**	**220,057**	**6.60%**
	81,835	Hermes GPE Infrastructure Funds	96,252	
	104,470	IFM Global Infrastucture Fund	107,419	
	8,966	Greencoats Renewable Income Infrastructure Fund	16,386	
11.50%	**306,823**	**Liability Driven Investment**	**381,311**	**11.40%**
	306,823	Insight LDI Fund	381,311	
78.60%	**2,115,368**	**Total - Pooled Investments**	**2,894,459**	**86.70%**
2.00%	**54,925**	**Cash & Cash Equivalents**	**87,696**	**2.60%**
-0.40%	**(9,757)**	**Derivatives**	**(670)**	**0.00%**
0.10%	**3,353**	**Investment Receivables**	**1,418**	**0.00%**
100.00%	**2,698,426**	**Total Investment Assets**	**3,339,774**	**100.00%**

Any single investments exceeding 5% of total net assets are in pooled investment vehicles made up of underlying investments each of which represent substantially less than 5% of total net assets.

Investment assets under the management of Brunel Pension Partnership are valued at £1,860M at 31 March 2021 (£1,062M at 31 March 2020).

The pension fund's investment portfolio includes a number of directly owned properties that are leased commercially to various tenants. The future minimum lease payments receivable are as follows:

31 March 2020		31 March 2021
£'000		£'000
11,589	Within one year	11,446
42,251	Between one and five years	40,726
46,614	Later than five years	38,479
100,454	**Total future lease payments due under existing contracts**	**90,651**

NOTE 15. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

The following table summarises details of purchases, sales and changes in the market valuation of investments in the fund during the financial year.

2020-21	Value 1 April 2020 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2021 £'000
Long Term Investments	427	-	-	341	768
Equities - Quoted	171,787	811,429	(1,040,909)	57,745	52
Pooled Investment Vehicles	2,115,368	843,583	(616,578)	552,086	2,894,459
Private Equity	98,085	15,574	(18,427)	870	96,102
Property	264,665	1,420	(6,427)	1,058	260,716
Total Securities	**2,650,332**	**1,672,006**	**(1,682,341)**	**612,100**	**3,252,097**
Forward Foreign Exchange	(9,757)	-	-	9,087	(670)
Futures	-	865	(2,121)	1,256	-
Total Securities and Derivatives	**2,640,575**	**1,672,871**	**(1,684,462)**	**622,443**	**3,251,427**
Other Investment Balances:					
Cash & cash equivalents	54,925	-	-	6,712	**87,696**
Other investment assets	3,353	-	-	-	**1,418**
Other investment liabilities	(2,316)	-	-	-	**-**
Total Net Investments	**2,696,537**	**1,672,871**	**(1,684,462)**	**629,155**	**3,340,541**

2019-20	Value 1 April 2019 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2020 £'000
Long Term Investments	395	-	-	32	427
Equities - Quoted	451,382	229,848	(527,731)	18,288	171,787
Pooled Investment Vehicles	2,104,713	961,051	(622,210)	(328,186)	2,115,368
Private Equity	80,275	19,309	(21,249)	19,750	98,085
Property	281,480	2,716	(8,823)	(10,708)	264,665
Total Securities	**2,918,245**	**1,212,924**	**(1,180,013)**	**(300,824)**	**2,650,332**
Forward Foreign Exchange	733	-	-	(10,490)	(9,757)
Total Securities and Derivatives	**2,918,978**	**1,212,924**	**(1,180,013)**	**(311,314)**	**2,640,575**
Other Investment Balances:					
Cash & cash equivalents	103,022	-	-	(792)	**54,925**
Other investment assets	3,781	-	-	-	**3,353**
Other investment liabilities	(1,686)	-	-	-	**(2,316)**
Total Net Investments	**3,024,095**	**1,212,924**	**(1,180,013)**	**(312,106)**	**2,696,537**

NOTE 16. ANALYSIS OF DERIVATIVES

The Fund's holdings in derivatives are to hedge liabilities or hedge exposures to reduce risk. To maintain appropriate diversification a significanct proportion of the Fund's equity portfolio is in overseas stock. To reduce the volatility associated with fluctuating currency rates, the Fund hedges 50% of the US Dollar, Euro and Japanese Yen exposure within its global equties investments. As at 31 March 2021, the Fund held the following open forward currency contracts.

Settlement	Currency Bought	Local Value 000s	Currency Sold	Local Value 000s	Asset Value £'000	Liability Value £'000
1-6 months	GBP	219,859	USD	305,036	-	(1,180)
	GBP	31,497	EUR	36,627	255	-
	GBP	28,032	JPY	4,232,785	255	-
Open Forward Currency Contracts at 31 March 2021					**510**	**(1,180)**
Net Forward Currency Contracts at 31 March 2021						**(670)**

Settlement	Currency Bought	Local Value 000s	Currency Sold	Local Value 000s	Asset Value £'000	Liability Value £'000
1-6 months	GBP	163,770	USD	215,085	-	(9,458)
	GBP	28,150	EUR	32,222	-	(409)
	GBP	19,868	JPY	2,661,433	-	(52)
	USD	86,900	GBP	69,829	160	0
	JPY	947,427	GBP	7,093	-	(1)
	EUR	10,921	GBP	9,676	4	0
Open Forward Currency Contracts at 31 March 2020					**164**	**(9,920)**
Net Forward Currency Contracts at 31 March 2020						**(9,757)**

NOTE 17. FAIR VALUE OF INVESTMENT ASSETS

All investment assets have been valued using fair value techniques based on the characteristics of each asset class. Asset valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values, as follows:

Level 1: where fair values are derived form unadjusted quoted prices in active markets for identical assets;

Level 2: where quoted market prices are not available, for example, where an asset is traded in a market that is not considered to be active, but where valuation techniques are based significantly on observable market data;

Level 3: where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

The following tables summarise the Fund's investment assets by class at 31 March 2021 and at 31 March 2020 measured at fair value according to the above fair value hierarchy.

31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	-	-	-	-
Overseas equities - Quoted	52	-	-	52
Pooled Investment Vehicles	-	2,621,869	272,590	2,894,459
Private Equity	-	-	96,102	96,102
Property	-	-	260,716	260,716
Cash & Cash Equivalents	83,061	4,635	-	87,696
Derivatives	-	(670)	-	(670)
Other investment assets	1,418	-	-	1,418
Total	**84,531**	**2,625,834**	**629,408**	**3,339,774**

31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	11,251	-	-	11,251
Overseas equities - Quoted	160,536	-	-	160,536
Pooled Investment Vehicles	-	1,883,747	231,621	2,115,368
Private Equity	-	-	98,085	98,085
Property	-	-	264,665	264,665
Cash & Cash Equivalents	46,027	8,898	-	54,925
Derivatives	-	(9,757)	-	(9,757)
Other investment assets	3,353	-	-	3,353
Total	**221,167**	**1,882,888**	**594,371**	**2,698,426**

During the year ended 31 March 2021 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy .

The basis of the valuation of each class of investment asset is summarised below.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
Level 1:			
Market quoted investments	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Exchange traded pooled investments	Published exchange prices at the reporting date.	Not required.	Not required.
Cash and cash equivalents	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments.	Not required.	Not required.
Level 2:			
Pooled investments - unit trusts etc.	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Not required.

Level 3:

Freehold and leasehold properties	Valued at fair value at the reporting date by Peter Sudell FRICS of BNP Paribas Real Estate and Andrew Wells FRICS (the Derwent portfolio) of Allsop LLP, both acting as independent valuers and in accordance with current RICS Valuation Standards.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Unquoted equity	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018).	Earnings (EBITDA) and revenue multiples, discount for lack of marketability, control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Property funds (where regular trading does not take place)	Underlying assets valued at fair value at the reporting date by each fund's valuers in accordance with current RICS Valuation Standards, taking account of other financial assets and liabilities within the fund structure.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

Sensitivity of assets valued at Level 3

The Fund has deternined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing values of investments held at 31 March 2021.

	Valuation range % (+/-)	Value at 31 March 2021 £'000	Value on Increase £'000 £'000	Value on Decrease £'000 £'000
Pooled Investment Vehicles	15.00%	272,590	313,479	231,702
Private Equity	15.00%	96,102	110,517	81,687
Property	15.00%	260,716	299,823	221,609
Total		**629,408**	**723,819**	**534,998**

The following tables provides an analysis of the Fund's assets and libilities by fair value hierarchy.

31 March 2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Equities	52	-	-	52
Pooled investments	-	2,621,869	220,057	2,841,926
Pooled property investments	-	-	52,533	52,533
Private equity	-	-	96,102	96,102
Derivative contracts	-	510	-	510
Sub-total	**52**	**2,622,379**	**368,692**	**2,991,123**
Non financial assets at fair value through profit and loss				
Property	-	-	260,716	260,716
Financial liabilities at fair value through profit and loss				
Derivative contracts	-	(1,180)	-	(1,180)
Total	**52**	**2,621,199**	**629,408**	**3,250,659**

31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Equities	171,787	-	-	171,787
Pooled investments	-	1,883,747	195,271	2,079,018
Pooled property investments	-	-	36,350	36,350
Private equity	-	-	98,085	98,085
Derivative contracts	-	164	-	164
Sub-total	**171,787**	**1,883,911**	**329,706**	**2,385,404**
Non financial assets at fair value through profit and loss				
Property	-	-	264,665	264,665
Financial liabilities at fair value through profit and loss				
Derivative contracts	-	(9,920)	-	(9,920)
Total	**171,787**	**1,873,990**	**594,371**	**2,640,148**

The following table provides a reconciliation of fair value measurements within Level 3.

	Pooled Investment £'000	Private Equity £'000	Property £'000	Total £'000
Value at 31 March 2020	231,621	98,085	264,665	594,371
Purchases and derivative payments	55,390	15,574	1,420	72,384
Sales and derivative receipts	(8,515)	(18,427)	(6,427)	(33,369)
Unrealised gains and losses	(7,766)	(10,247)	1,058	(16,955)
Realised gains and losses	1,860	11,117	-	12,977
Value at 31 March 2021	**272,590**	**96,102**	**260,716**	**629,408**

NOTE 18. CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 March 2021	Fair value through profit and loss £'000	Assets at amortised cost £'000	Liabilities at amortised cost £'000
Financial assets			
Equities	52	-	
Pooled investements	2,841,926	-	
Pooled property investments	52,533	-	
Private equity	96,102	-	
Derivative contracts	510	-	
Cash and cash equivalents	-	87,696	
Other investment balances	-	1,418	
Debtors	-	16,030	
Total	**2,991,123**	**105,144**	
Financial liabilities			
Derivative contracts			1,180
Other investment balances			-
Sundry creditors			5,581
Total			**6,761**

As at 31 March 2020	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
	£'000	£'000	£'000
Financial assets			
Equities	171,787	-	
Pooled investements	2,079,018	-	
Pooled property investments	36,350	-	
Private equity	98,085	-	
Derivative contracts	164	-	
Cash and cash equivalents	-	54,925	
Other investment balances	-	3,353	
Debtors	-	23,768	
Total	**2,385,404**	**82,046**	
Financial liabilities			
Derivative contracts			9,920
Other investment balances			2,316
Sundry creditors			6,704
Total			**18,940**

NOTE 19. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunities for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, interest rate risk and currency risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Committee. The Committee receives regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and their associated risks.

(a) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. Exposure to specific markets and asset classes is limited by applying strategic targets to asset allocation, which are agreed and monitored by the Committee.

(a) (i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or factors affecting all such instruments in the market. The Fund's investment managers mitigate this risk through diversification in line with their own investment strategies.

The following table demonstrates the change in the net assets available to pay benefits if the market price for each class of investment had increased or decreased by 15%, excluding cash and other investment assets.

As at 31 March 2021	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - quoted	-	15.00%	-	-
Overseas equities - quoted	52	15.00%	8	(8)
Pooled Investment Vehicles	2,894,459	15.00%	434,169	(434,169)
Private Equity	96,102	15.00%	14,415	(14,415)
Property	260,716	15.00%	39,107	(39,107)
Cash & cash equivalents	87,696	0.00%	-	-
Derivatives	(670)	15.00%	(100)	100
Other investment assets	1,418	0.00%	-	-
Total	**3,339,773**	**14.60%**	**487,599**	**(487,599)**

As at 31 March 2020	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	11,251	15.00%	1,688	(1,688)
Overseas equities - Quoted	160,536	15.00%	24,080	(24,080)
Pooled Investment Vehicles	2,115,368	15.00%	317,305	(317,305)
Private Equity	98,085	15.00%	14,713	(14,713)
Property	264,665	15.00%	39,700	(39,700)
Cash & cash equivalents	54,925	0.00%	-	-
Derivatives	(9,757)	15.00%	(1,464)	1,464
Other investment assets	3,353	0.00%	-	-
Total	**2,698,426**	**14.68%**	**396,022**	**(396,022)**

(a) (ii) Interest Rate Risk

Interest rates can vary and can affect both income the Fund and the value of Fund assets, both of which affect the value of net assets available to pay benefits. The Fund's exposure to interest rate movements on those investments at 31 March 2021 and 2020 are provided below, based on underlying financial assets at fair value.

This analysis assumes that all other variables, in particular foreign currency exchnage rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of an increase or decrease of 1% (100 basis points) in interest rates.

The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the calue of cash and cash equivalents but they will affect the interest received on those balances.

As at 31 March 2021	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	87,696	-	-
Assets held in pooled investment vehicles:			
Bonds	192,357	1,924	(1,924)
Multi Asset Credit (MAC)	170,469	1,705	(1,705)
Liability Driven Investment (LDI)	381,311	3,813	(3,813)
Total	**831,833**	**7,441**	**(7,441)**

As at 31 March 2020	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	54,925	-	(549)
Assets held in pooled investment vehicles:			
Bonds	220,608	2,206	(2,206)
Multi Asset Credit (MAC)	120,399	1,204	(1,204)
Liability Driven Investment (LDI)	306,823	3,068	(3,068)
Total	**702,755**	**6,478**	**(7,028)**

(a) (iii) Currency Risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling (GBP).

To mitigate the effect of movements in foreign exchange rates against its overseas equities investments, the Fund has in place a 50% passive currency hedge against the three major currencies, the US Dollar, the Euro and the Japanese Yen, and 50% of its holdings in the LGIM Passive Developed Equites and Smart Beta funds are in hedged

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exhange rate movements to be not more than +/- 15% in total. The following summarises the Fund's exposure to currency exchange rate movements on its investments net of these hedges.

As at 31 March 2021	Total Exposure £'000	Unhedged Exposure £'000	Potential Movement £'000
Overseas equities - quoted	52	26	4
Pooled Investment Vehicles	1,807,070	1,209,300	181,395
Private Equity	96,102	96,102	14,415
Total	**1,903,224**	**1,305,428**	**195,814**

As at 31 March 2020	Total	Unhedged	Potential
	£'000	£'000	£'000
Overseas equities - quoted	160,536	80,268	12,040
Pooled Investment Vehicles	983,665	722,546	108,382
Private Equity	98,085	98,085	14,713
Total	**1,242,286**	**900,899**	**135,135**

(b) Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The selection of high quality counterparties, brokers and financial institutions minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund also sets limits as to the maximum percentage of deposits placed with any one individual institution. In addition, the Fund invests in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

The table below summarises the Fund's exposure to credit risk at 31 March 2021 and 31 March 2020.

	31 March 2021	31 March 2020
Investment	**£'000**	**£'000**
Bank Account Deposits	33,796	35,225
Money Market Funds	53,900	19,700
Assets held in pooled investment vehicles:		
Bonds	192,357	220,608
Multi Asset Credit (MAC)	170,469	120,399
Liability Driven Investment (LDI)	381,311	306,823
Total	**831,833**	**702,755**

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Such risks are mitigated by maintaining a detailed cashflow model and taking appropriate steps to ensure that there is adequate cash available to meet liabilities as they fall due.

The Fund has immediate access to its cash holdings and defines liquid assets as assets that can be converted to cash within three months notice, subject to normal market conditions. As at 31 March 2021, liquid assets were £2,711M representing 81% of total net assets (£2,173m at 31 March 2020 representing 80% of total net assets at that date).

NOTE 20. FUNDING ARRANGEMENTS

In accordance with the LGPS Regulations, the Fund's actuary, Barnett Waddingham, undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The most recent such valuation took place as at 31 March 2019, setting employer contribution rates for the period 1 April 2020 to 31 March 2023. The next valuation is due to take place as at 31 March 2022.

The key elements of the funding policy are:

- to ensure that the long-term solvency of the Fund i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determing contribution rates where it is reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

Contribution rates for the year ending 31 March 2021 were set at the valuation calculated as at 31 March 2019. The common contribution rates set at the 2019 valuation for the three year period ending 31 March 2023 are as follows.

	2020/21	2021/22	2022/23
Primary rate (future service contributions)	17.70%	17.70%	17.70%
Secondary rate (deficit recovery contributions)	4.00%	4.10%	4.40%
Total employer contributions	**21.70%**	**21.80%**	**22.10%**

The contribution rates paid by each employer, in addition to those paid by members of the scheme, are set to be sufficient to meet the liabilities that build up each year within the Fund in respect of the benefits earned by each employer's active members of the Fund during the year plus an amount to reflect each participating employer's share of the value of the Fund's assets compared with the liabilities that have already accrued at the valuation date. Each employer pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund. The contribution rates were calculated using the projected unit method taking account of market conditions at the valuation date.

At the 2019 actuarial valuation, the Fund was assessed as 92% funded (83% at the 2016 valuation) with a deficit recovery period of no more than 19 years (22 years at the 2016 valuation). The key assumptions applied by the actuary for the 2019 and 2016 valuations are summarised below. To be consistent with the market value of assets, the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date.

	Valuation 2019	Valuation 2016
Annual rate of return on investments (discount rate)	5.00%	5.40%
Annual rate of increases in pay (long term)	3.60%	3.90%
Annual rate of inflation (CPI)	2.60%	2.40%

NOTE 21. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary, Barnett Waddingham, also undertakes a valuation of the Fund's liabilities on an IAS 19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This annual valuation is not carried out on the same basis as that used for setting employer contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

This valuation as at 31 March 2021 is set out in the appendix to these financial statements 2020/21.

NOTE 22. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The Council administers an in-house AVC Scheme with two designated providers, Prudential and Utmost Life and Pensions Limited (formerly Equitable Life). The amounts contributed to AVC plans by employees who are members of the pension scheme do not form any part of, and are not included in, the Fund accounts.

Each employer in the Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset Council, in its capacity as a scheme employer, deducted and paid to the AVC providers a total of £549k in 2020/21 (£418k in 2019/20).

NOTE 23. RELATED PARTY TRANSACTIONS

Related party issues arise primarily from the fact that the Council is the administering authority for the Fund. The Council also has various operational, contractual and financial dealings with a number of scheduled and admitted bodies of the Fund, however, these activities do not relate to the Council's role as administering authority for the Fund.

The Council remits monthly contributions to the Fund in arrears, and March 2021 contributions of £2.7M were accrued as at 31 March 2021. Management and administration costs of £2.4M were incurred by the Council and recharged to the Fund in 2020/21. In addition at any given time there may be amounts which have been paid or received by both the Council or the Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the Council and the Fund and are settled on a regular basis.

Senior officers of the Council are members of the Fund as employee contributors. As at 31 March 2021, one member of the Committee was a contributing member of the Fund and one member of the Committee was a deferred member of the Fund. The key management personnel of the Fund are the members of the Committee, the Council's Chief Financial Officer (who is the Fund Administrator) and the Deputy Chief Financial Officer. The £2.4M recharge from the Council includes a charge of £20k for the Deputy Chief Financial Officer's time spent working for the Fund.

NOTE 24. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS

Recovery of withholding tax

The Fund is continuing the process required to recover withholding tax from various EU investments following rulings requiring equal treatment for all EU investors. These claims will be retrospective and will cover a varying number of years depending on the domicile. Neither the amount nor the expected time of settlement are known so consequently the financial statements as at 31 March 2021 do not reflect any potential recovery of tax.

Impact of the McCloud and Sargeant judgements

The Local Government Pension Scheme (LGPS) introduced a new Career Average Revalued Earnings (CARE) benefit structure with effect from 1 April 2014. For members who were 10 years or less from Normal Retirement Age on 1 April 2012, an ‘underpin’ was provided based on the existing final salary scheme to provide transitional protection to those members.

In December 2018, the Court of Appeal found that transitional protections in the pension schemes for firefighters ("McCloud") and the judiciary ("Sargeant") resulted in unlawful age discrimination. The implications of the ruling are expected to apply to all public sector schemes including the LGPS. The Government sought permission to appeal this decision to the Supreme Court but that permission was denied on 27 June 2019. There remains considerable uncertainty about the eventual remedy that may be put in place for the LGPS.

The Government Actuary's Department’s (GAD) estimated the potential impact to be between 0.1% and 3.2% of total LGPS active member liabilities, depending on a number of assumptions. Whilst this looks at the national picture, the impact on any given fund and its scheme employers could be significantly different. The Fund’s actuary have calculated the estimated impact on liabilities for the main employers in the Fund based on the assumptions used by GAD. These results range from 0.4% to 0.8% of total liabilities for each employer.

Outstanding capital commitments

Outstanding capital commitments (investments) at 31 March 2021 were approximately £70m. These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the pension fund. The amounts ‘called’ by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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